

REPORT OF EXAMINATION
OF THE
HYUNDAI MARINE AND FIRE INSURANCE
COMPANY, LTD. (U.S. BRANCH)

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 2, 2011

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Los Angeles, California
February 24, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

HYUNDAI MARINE AND FIRE INSURANCE COMPANY, LTD.
(U.S. BRANCH)

(hereinafter also referred to as the U.S. Branch) at the office of its U.S. manager, Citadel Risk Management, Inc., located at 1011 Route 22 West, Bridgewater, New Jersey 08807. The statutory home office of the U.S. Branch is located at 300 Sylvan Avenue, Englewood Cliffs, New Jersey 07632. The Hyundai Marine and Fire Insurance Company, Ltd., is domiciled in the Republic of Korea.

SCOPE OF EXAMINATION

The previous examination of the U.S. Branch was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of

examination. The examination included a review of the U.S. Branch's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the U.S. Branch's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; sales and advertising.

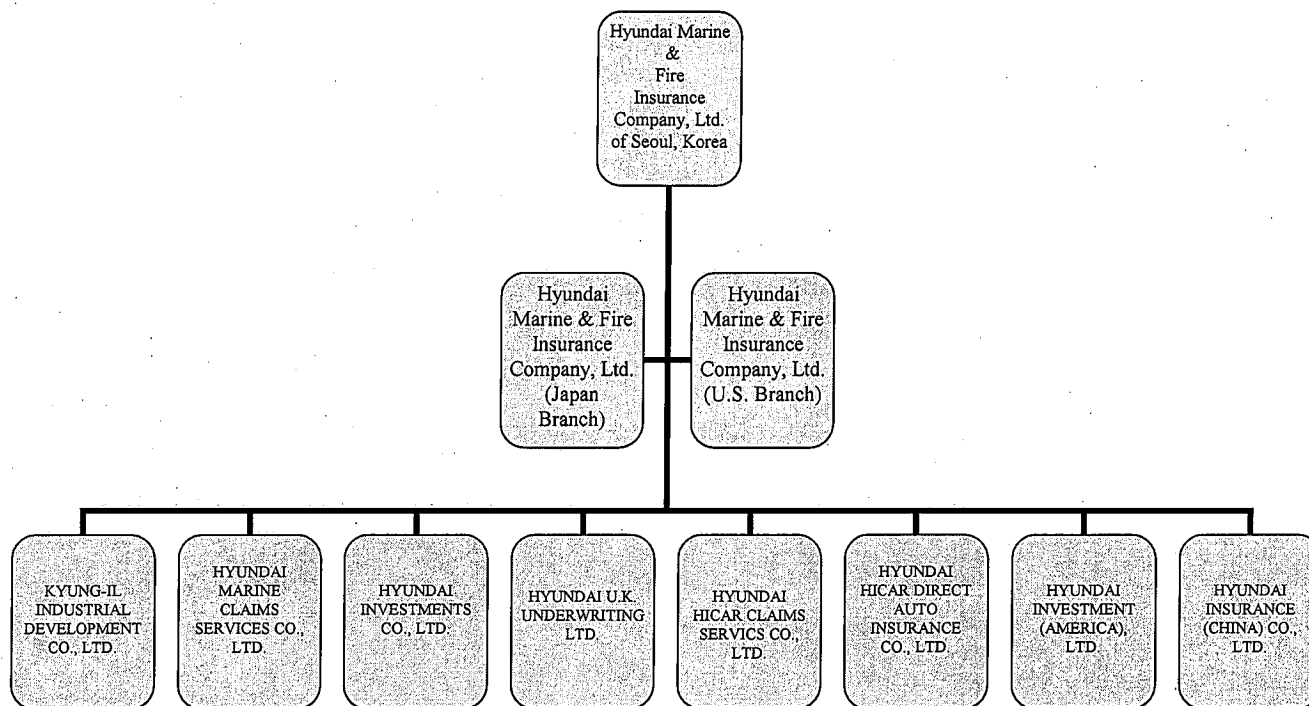
COMPANY HISTORY

Hyundai Marine and Fire Insurance Company, Ltd., (Company) was incorporated in Seoul, Korea in 1955 and is one of the largest property and casualty insurance companies in Korea. The Company currently has two branch offices, one in Japan and one in the United States and liaison offices in England, Vietnam, and China through which it provides a broad range of property and casualty insurance products. The Company's port of entry is California for the United States Market. The U.S. Branch of the Company commenced business on December 4, 1992.

MANAGEMENT AND CONTROL

The U.S. Branch is 100% owned by Hyundai Marine and Fire Insurance Company, Ltd., of Seoul, Korea. As of December 31, 2009, Citadel Risk Management Inc. is the U.S. Manager for the U.S. Branch of the company.

The following abridged organizational chart illustrates the Company's subsidiaries as well as overseas branches, depicting the Company's holding company structure:



(*) all ownership is 100% unless otherwise noted

Management of the Company is vested in a nine-member board of directors. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence

Byung-Doo Choi
Seoul, Korea

Kyu-Sand Chung
Seoul, Korea

Principal Business Affiliation

Outside Director
Chief Executive Officer at International
Outsourcing Company

Outside Director
Lawyer at BKL Lawfirm

Name and Residence

Mong-Yoon Chung
Seoul, Korea

Chang-Soo Kim
Seoul, Korea

Dong-Hon Kim
Seoul, Korea

Cheol-Young Lee
Seoul, Korea

Myung-Hyun Na
Seoul, Korea

Seong-Yeon Park
Seoul, Korea

Tai-Chang Seo
Seoul, Korea

Principal Business Affiliation

Chairman of the Board
Hyundai Marine and Fire Insurance Company, Ltd.

Outside Director
Advisor Sebit Accounting Firm

Outside Director
Kook-Min University School of Business

President and Chief Executive Officer, Management
Hyundai Marine and Fire Insurance Company, Ltd.

Standing Auditor
Hyundai Marine and Fire Insurance Company, Ltd.

Outside Director, Professor
Ewha Women's University

President and Chief Executive Officer, Production
Hyundai Marine and Fire Insurance Company, Ltd.

Principal OfficersName

Cheol-Young Lee

Tai-Chang Seo

Myung-Hyun Na

Ho-Young Kim

Young-Moon Lee

Chan-Jong Park

Chang-Sik Lim

Ki-Chan Yoon

Yong-Il Cho

Title

President and Chief Executive Officer
Management

President and Chief Executive Officer
Production

Standing Auditor

Executive Vice President, Personal Line Division

Executive Vice President, Claims Division

Executive Vice President, Commercial Line
Division/Public Relations Division

Senior Vice President, Product Development and
Underwriting Division

Senior Vice President, Commercial Line
Division/Part1

Senior Vice President, General Insurance
Underwriting Division

<u>Name</u>	<u>Title</u>
In-Soo Park	Senior Vice President President of Hyundai Insurance China Co., Ltd.
Gab-Soo Kim	Senior Vice President, Personnel, General Administration Division
Dong-Joo Lee	Senior Vice President, Gangbuk District Division
Nam-Jo Shin	Senior Vice President, Long-Term Insurance Claims Division
Jeong-Seok Chae	Senior Vice President, Gyongin District Division
Heung-Dong Kim	Senior Vice President, Marketing Division
Deok-Yong Park	Senior Vice President, Gangnam District Division
Yong-Choon Yoon	Senior Vice President, Information System Division

Officers of the United States Branch

<u>Name</u>	<u>Title</u>
Kwi-Young Maeng(*)	President/General Manager
Jin Byun	Secretary and Treasurer/Manager
(*)Ki-Young Park replaced Kwi-Young Maeng as President in July 2010	

Management Agreements

Administrative Services Agreement: On November 1, 2006, the U.S. Branch appointed a new management company, Citadel Risk Management Inc. (CRMI), a corporation organized and existing under the laws of the State of Connecticut and having principal places of business in Wayne and Bridgewater, New Jersey. CRMI has been the true and lawful Attorney and Manager of the U.S. Branch in the United States of America. CRMI furnishes the U.S. Branch with management services and support services relating to premium processing, claim administration, compliance filings, accounting, and financial statement administration. For 2007, 2008, and 2009, U.S. Branch paid \$246,163, \$319,007, and \$258,784, respectively, for services received under the terms of the agreement.

Trust Agreement

California Insurance Code (CIC) Sections 1580 and 1581 provide that an alien insurer organized under the laws of a foreign country and transacting business in the State of California is required to maintain in the United States trusted assets for the security of all its policyholders and creditors within the United States and to appoint a trustee of such assets. In connection with this requirement, the U.S. Branch appointed Union Bank, N.A. as its trustee in the United States.

CIC Section 1582 provides that such trustee assets shall exceed the liabilities by an amount equal to the minimum amount of paid-in capital required for admission of incorporated insurers issuing policies on a reserve basis and transacting the same classes of insurance which such alien insurer is transacting in the United States. Based on the classes of business currently being authorized, the U.S. Branch is required to maintain a paid-in capital of \$1.9 million. As of December 31, 2009, there was \$3.0 million on deposit with the trustee.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the U.S. Branch must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. The board must also enter that fact in the board minutes. A review of board of directors' minutes disclosed that the first formally prepared draft of the examination report was not presented to members of the board. It is recommended that the U.S. Branch implement procedures to ensure future compliance with CIC Sections 735.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the U.S. Branch was licensed to write various property and casualty coverages. The following is a listing of the states in which the U.S. Branch is licensed:

Alabama	Illinois
California	New York
Georgia	Oregon

Ocean Marine business accounts for approximately \$2.1 million (58.8%) of the \$3.6 million of direct premiums written. Of the total \$3.6 million direct premiums written, \$2.4 million (67.3%) was written in California, \$0.4 million (12.1%) was written in Georgia, and \$0.8 million (20.6%) was written in the remaining states.

The U.S. Branch develops its business throughout the United States based on the Company's relationships with Korean entities. The majority of the U.S. Branch's business is acquired through its participation in facultative and treaty reinsurance with subsidiaries of Chartis (formerly known as American International Group). Approximately six brokers are used by the U.S. Branch in connection with the production of its business.

REINSURANCE

Assumed

The following is a summary of the U.S. Branch principal assumed reinsurance treaties in force as of December 31, 2009:

Type of Contract	Ceding Insurers	Reinsured's Retention	U.S. Branch's Maximum Limits
Personal Lines Quota Share Reinsurance Treaty	Lexington Insurance Company, Landmark Insurance Company, American International Group Excess Liability Insurance Company Ltd.	88%	3% or \$150,000 per occurrence 100% \$5,000,000 Per Policy Risk Limit

Personal Lines Quota Share Treaty: In 2009, the U.S. Branch assumed 3.0% of Lexington's Personal Lines Quota Share Treaty to provide reinsurance coverage on Lexington's personal lines homeowners business for the benefit of Lexington Insurance Company, Landmark Insurance Company, and American International Group Excess Liability Insurance Company Ltd.

In addition to the above-mentioned agreement, the U.S. Branch was also a party to arrangements that provided reinsurance on a facultative basis. These arrangements accounted for approximately \$5.5 million or approximately 57.5% of the U.S. Branch's entire business assumed (\$9.6 million) in 2009.

Ceded

The following is a summary of the U.S. Branch principal ceded reinsurance treaties in force as of December 31, 2009:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Facultative Obligatory Reinsurance	Korean Reinsurance Company (Unauthorized)	.5%-50% per risk	\$4 million Property (Probable Maximum Loss) \$3 million Ocean Marine
Facultative Casualty Reinsurance	Korean Reinsurance Company (Unauthorized)	10%-25% per risk	\$1 million Casualty lines per risk
Personal Lines Property Catastrophe Excess of Loss Reinsurance - First Excess	Lloyd's Syndicate 2791 (Managing Agency Partners) (Authorized)	2.7% of \$50 million	2.7% of \$50 million excess of \$50 million

Personal Lines Property Catastrophe Excess of Loss Reinsurance - Second Excess	Lloyd's Syndicate 2791 (Managing Agency Partners) (Authorized)	2.7% of \$100 million	2.7 % of \$100 million excess of \$100 million
Property Variable Quota Share Reinsurance	Korean Reinsurance Company (Unauthorized)	1 out of 5 lines or 20%	4 out of 5 lines or 80%, United States Dollar \$55 million
Facultative Reinsurance (POSCO America)	Various Lloyd's Syndicates (Authorized)	40% of \$15 million	40% of \$15 million
Facultative Reinsurance (POSCO America)	Korean Reinsurance Company (Unauthorized)	40% of \$15 million	20% of \$15 million
Facultative Reinsurance (POSCO Mexico)	Various Lloyd's Syndicates (Authorized)	20% of \$12 million	80% of \$12 million
Facultative Reinsurance (Hyundai CAO A)	Various Lloyd's Syndicates (Authorized)	2.5% of \$80 million	95% of \$80 million
Facultative Reinsurance (Hyundai CAO A)	Korean Reinsurance Company (Unauthorized)	2.5% of \$80 million	2.5% of \$80 million

Facultative/Obligatory Reinsurance: The U.S. Branch entered into a facultative obligatory quota share reinsurance treaty with Korean Reinsurance Company, Seoul, Korea (Korean Re) which can cover its direct and assumed business on all property and ocean marine lines of businesses up to their respective limits of liability. The U.S. Branch's retention ranges from approximately 0.5% to 50% per risk. The ceded risk results are reported on a quarterly bordereaux basis. The agreement is renewed annually and has 90 days written notice of cancellation by each party.

Facultative Casualty Reinsurance: The U.S. Branch retains a facultative reinsurance arrangement with Korean Re which covers its direct and assumed business on all casualty lines of businesses. The U.S. Branch's retention ranges from approximately 10% to 25% per risk. The arrangement

is in the form of individual facultative reinsurance notices but the ceded risk results are reported on a quarterly bordereaux basis. The arrangement detail is negotiable annually.

Personal Lines Property Catastrophe Excess of Loss Reinsurance: The U.S. Branch participates in a Personal Lines Property Catastrophe Excess of Loss Reinsurance. The layered limits of the Excess of Loss Reinsurance are up to \$150 million on each and every risk in excess of \$50 million pertaining to Hyundai's participation (3% in 2009) in the Lexington Personal Lines Homeowners Quota Share Treaty. This reinsurance contract protects the U.S. Branch from the catastrophic perils (hurricanes) of homeowners business assumed under the terms of the Lexington Personal Lines Quota Share Treaty.

Property Variable Quota Share: The U.S. Branch cedes property risks to Korean Re through the Property Quota Share Reinsurance Treaty. Typically, the U.S. Branch ceded 4 lines of the risk, or 80% in 2009. The ceded risk results are reported on a quarterly bordereau basis. The agreement is renewed annually and has 90 days written notice of cancellation by each party.

Occasionally, the Company also cedes property risks to domestic or foreign (non-Korea based) reinsurers in the United States (Factory Mutual, Scor Re, Mitsui Sumitomo) or in London (Navigators) on a facultative basis as needed.

Marine Cargo Reinsurance: The U.S. Branch also secures facultative reinsurance cover for large Marine Cargo open policies. In 2009, the Company retained facultative reinsurance cover for three specific risks (Posco America, Posco Mexico & Hyundai CAO (Brazil)) as illustrated above. The U.S. Branch cedes various shares (e.g., 40%-95%) through each of the reinsurance agreements depending upon the needed capacity and/or the U.S. Branch's risk tolerance.

A review of the Property Quota Share Treaty with Korean Re determined that the insolvency article was not in full compliance with California Insurance Code (CIC) Section 922.2. It is recommended that the U.S. Branch amend the treaty above to comply with CIC Section 922.2.

In order to remedy this examination finding, the U.S. Branch consulted with the its home office and negotiations are currently taking place which would ensure that the 2011 reinsurance agreement renewal complies with CIC Section 922.2.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Statement of Trusteed Surplus in the United States
for the Year Ended December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 20,450,486	\$	\$ 20,450,486	
Cash and short-term investments	5,306,096		5,306,096	
Investment Income due and accrued	165,970		165,970	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	2,935,247	23,914	2,911,333	
Reinsurance:				
Amounts recoverable from reinsurers	264,949		264,949	
Funds held by or deposited with reinsured companies	23,927		23,927	
Net deferred tax asset	449,520	164,829	284,691	
Electronic data processing equipment and software	786	786		
Furniture and equipment, including health care delivery	6,762	6,762		
Aggregate write-ins for other than invested assets	<u>6,408</u>		<u>6,408</u>	
Total assets	<u>\$ 29,610,151</u>	<u>\$ 196,291</u>	<u>\$ 29,413,860</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 6,503,192	(1)
Reinsurance payable on paid loss and loss adjustment expenses			402,785	
Loss adjustment expenses			1,608,000	(1)
Other expenses			15,000	
Current federal and foreign income taxes			78,177	
Unearned premiums			2,525,148	
Ceded reinsurance premiums payable			1,953,630	
Funds held by company under reinsurance treaties			1,377,341	
Remittances and items not allocated			87,408	
Provision for reinsurance			244,017	
Aggregate write-ins for liabilities			<u>76,000</u>	
Total liabilities			14,870,698	
Aggregate write-ins for other than special surplus funds		\$ 3,000,000		
Gross paid-in and contributed surplus		8,100,000		
Unassigned funds (surplus)		<u>3,443,162</u>		
Surplus as regards policyholders			<u>14,543,162</u>	
Total liabilities, surplus and other funds			<u>\$ 29,413,860</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ 6,420,678
Deductions:		
Losses incurred	\$ 2,834,920	
Loss expense incurred	737,867	
Other underwriting expenses incurred	<u>1,977,656</u>	
Total underwriting deductions		<u>5,550,443</u>
Net underwriting gain		870,235

Investment Income

Net investment income earned	\$ 802,468	
Net realized capital losses	<u>(315,652)</u>	
Net investment gain		486,816

Other Income

Net gain from agents' or premium balances charged off	<u>\$ 382</u>	
Total other income		<u>382</u>
Net income before federal and foreign income taxes		1,357,432
Federal and foreign income taxes incurred		<u>475,639</u>
Net income		<u>\$ 881,793</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 13,247,511
Net income	\$ 881,793	
Change in net unrealized capital gains	168	
Change in net deferred income tax	(82,146)	
Change in nonadmitted assets	290,518	
Change in provision for reinsurance	207,318	
Aggregate write-ins for losses in surplus	<u>(2,000)</u>	
Change in surplus as regards policyholders		<u>1,295,651</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 14,543,162</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006,
per Examination

\$ 12,239,614

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 2,179,200	\$
Change in net unrealized capital losses		11,551
Change in net deferred income tax	91,542	
Change in nonadmitted assets	147,185	
Change in provision for reinsurance		26,828
Aggregate write-ins for losses in surplus	<u> </u>	<u>76,000</u>
Totals	<u>\$ 2,417,927</u>	<u>\$ 114,379</u>

Net increase in surplus as regards policyholders

2,303,548

Surplus as regards policyholders, December 31, 2009,
per Examination

\$ 14,543,162

Statement of Trusteed Surplus in the United States
For the Year Ended December 31, 2009

Assets

Deposits with the United States trustee:

Bonds	\$ 3,026,997
Accrued Investment income	<u>19,027</u>

Total trusted assets	<u>\$ 3,046,024</u>
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Liabilities and Trusted Surplus

Liabilities and reserves	14,870,698
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Additions to liabilities

Ceded reinsurance balances payable	<u>\$ 1,953,630</u>
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Total additions	<u>1,953,630</u>
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Total	<u>\$ 16,824,328</u>
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Deductions from liabilities

Reinsurance recoverable on paid losses and loss adjustment expenses:

Authorized companies	\$ 2,332
Unauthorized companies	262,616

Special State deposits, not exceeding net liabilities carried in this statement on business in each respective state:

Special state deposits	3,304,161
Accrued interest on special state deposits	37,832

Agents' balances or uncollected premiums not more than ninety days past due, not exceeding unearned premium reserves carried thereon

	1,027,934
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Unpaid reinsurance premiums receivable, not exceeding losses and loss adjustment expenses due to reinsured:

Authorized companies	1,883,399
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Aggregate write-ins for other deductions from liabilities	<u>13,049,688</u>
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Total deductions	<u>19,567,962</u>
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Total adjusted liabilities	(2,743,634)
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Trusteed surplus	<u>5,789,658</u>
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Total	<u>\$ 3,046,024</u>
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COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The U.S. Branch's reserves for losses and loss adjustment expenses as of December 31, 2009 were evaluated by a Casualty Actuary from the California Department of Insurance and were found to be reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 6): It is recommended that the U.S. Branch implement procedures in its board meetings to ensure compliance with California Insurance Code Sections 735.

Reinsurance – Ceded (Page 8): It is recommended that the U.S. Branch amend the treaty above to comply with CIC Section 922.2. In order to remedy this examination finding, the U.S. Branch consulted with the its home office and negotiations are currently taking place which would ensure that the 2011 reinsurance agreement renewal complies with CIC Section 922.2

Previous Report of Examination

Accounts and Records (Page 10): It was again recommended that the U.S. Branch maintain documentation to support all financial statement accounts. In addition, it was recommended that the U.S. Branch comply with Statement of Statutory Accounting Principles No. 6 as regards to the offsetting of credit and debit agents' balances. The U.S. Branch is now in compliance with these recommendations.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the U.S. Branch's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Bridget Lopez, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California